Arizona State Retirement System

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An ASRS Q&A

Market volatility and your Retirement System (Defined Benefit Plan)

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Question: What impact has the volatile stock market had on the ASRS in recent months?

Answer: The ASRS is invested in nearly all sectors of the market, including the major indexes. When the markets go up, the ASRS fund increases; when the markets go down, so does the ASRS fund. Over the course of the current economic downturn, the ASRS total fund has declined from $24.8 billion in early September to approximately $19.3 billion today.

Q: What impact does that have on members?

A: Keep in mind that the majority of ASRS members are in the **defined benefit plan**. That means benefits are determined by a formula that takes into account years of service and average salary at the time of retirement. The ups and downs of the stock market do not affect the level of your retirement benefit, as it would with a defined contribution plan, such as a personal 401(k) plan.

For retired members, their monthly lifetime benefit is guaranteed not to decline, despite what the markets, or the ASRS total fund, may do at any given time. However, prolonged down markets make it difficult for the ASRS to accumulate excess funds, which are used to fund the Permanent Benefit Increase program. That benefit, defined in state statute, provides for an increase to retirees' monthly benefits only when excess earnings are sufficient to generate such an additional benefit. There will be no increase to the PBI for the coming fiscal year, which begins July 1, 2009.

For active members, prolonged down markets that lead to multiple years of rates of return below the ASRS assumed earnings rate of 8 percent put upward pressure on contribution rates. The contribution rate for the defined benefit plan and the health insurance premium benefit program, and the ASRS Long Term Disability plan, is currently 9.45 percent. Contribution rates for the upcoming fiscal year, which begins July 1, 2009, will actually decrease slightly, to 9.40 percent. This is due primarily to a decrease in the LTD rate – from the current 0.50 to 0.40. If the markets remain depressed or continue to decline contribution rates for July 1, 2010 would have to increase.

For inactive members who have an account balance with the ASRS but are no longer making contributions because they are no longer employed by a participating employer, their accounts continue to accrue interest at the rate of 8 percent. (For withdrawal purposes, however, contributions made from July 1, 2005 forward are subject to 4 percent interest.)

Q: Where are the ASRS investments, and have you made changes based on the current state of the markets?

A: The ASRS manages a well-diversified portfolio that is designed to produce returns over a long period of time. This institutional investment approach relies primarily on an asset allocation strategy that does not radically change due to market conditions. The ASRS Strategic Asset Allocation Policy is as follows:

U.S. Stocks 45%

- Large Cap: 31%
- Mid Cap: 7%
- Small Cap: 7%

Fixed Income...............................26%

International Stocks......................18%

Real Estate...................................6%

Private Equity 5%

There are, however, opportunities to shift funds to take advantage of market conditions. For example, in recent weeks the ASRS has:

- Tactically committed and invested capital to non-U.S. Treasury securities (trading at attractive historical yields).
- Through our Global Tactical Asset Allocation (GTAA) sector, we have marginally reduced over-weighting in equities and commodities, reallocating to fixed income.
- Continued to analyze markets for other opportunistic investments.

Q: How have the investments performed?

A: The ASRS total fund rate of return for the fiscal year to date remains in negative territory. Keep in mind, however, that this number changes daily. The rate of return for the last fiscal year was -7.6 percent. Since the inception of the fund, the rate of return is 10.4 percent for the period ending June 30, 2008.

Q: Why not make bolder moves when the markets are declining sharply? Why not bail out of the financial sector, for example?

A: Timing the markets to produce a steady return is difficult, if not impossible. Consider this: During the 10-year period ending December 31, 2007, the S&P 500 Index achieved an annualized return of 5.9 percent. If an investor had missed just the top 20 days during this period, the return would have fallen to -2.5 percent.

Q: Should I be worried about my retirement savings?

A: Obviously, market conditions affect us all. During these volatile times, the ASRS will continue to closely monitor investments and make adjustments when prudent, but will continue to take a long-term approach to investing.

It is in such times that members can be particularly reassured as participants in a defined benefit plan that is supported by a professionally managed, well-diversified portfolio that benefits are guaranteed, and not tied to any account balance that may go up or down.

Funds used to pay benefits come into the Retirement System through member and employer contributions, and from investments. Although the market value of the ASRS fund will fluctuate, as will the markets in general, there are sufficient funds to meet current guaranteed benefit obligations to our retirees.

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